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EXECUTIVE DIRECTOR

P.O. Box 11263
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DAN E ARNETT
CHIEF OF STAFF

August 17, 2005

VIA HAND DELIVERY

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

Re: Application of Melrose Utility Company, Inc., for Adjustments in Rates
and Charges for Water and Sewer Charges.
Docket No.: 2005-74-W/S

Dear Mr. Terreni:

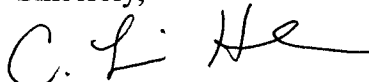
Enclosed for filing please find sixteen (16) copies of the Settlement Agreement with Settlement Agreement Exhibits 1-3 in the above-referenced matter. Please date stamp one copy and return it to me via our courier.

We have served same on all parties of record and have enclosed a Certificate of Service to that effect.

All parties plan to attend the hearing on August 25, 2005; however, only ORS witness Dawn Hipp will be testifying.

Please let me know if you have any questions.

Sincerely,


C. Lessie Hammonds

cc: Robert Bockman, Esquire (w/enclosure)
John Beach, Esquire (w/enclosure)

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2005-74-W/S

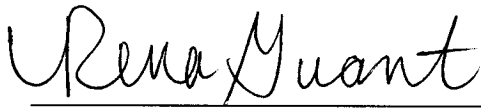
IN RE: Application of Melrose Utility)
Company, Inc. for Approval of an)
Adjustment in Rates and Charges)
For Water and Sewer Services)
_____)

CERTIFICATE OF SERVICE

This is to certify that I, Rena Grant, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **Settlement Agreement** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Robert T. Bockman, Esquire
McNair Law Firm
Post Office Box 11390
Columbia, SC 29211

John F. Beach, Esquire
Ellis Lawhorne & Sims, P.A.
Post Office Box 2285
Columbia, SC 29202-2285



Rena Grant

August 17, 2005
Columbia, South Carolina

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2005-74-W/S

IN RE:

Application of Melrose Utility)
Company, Inc. for Approval of an)
Adjustment in Rates and Charges)
For Water and Sewer Services)
_____)

SETTLEMENT AGREEMENT

This Settlement Agreement is made by and among the Office of Regulatory Staff of South Carolina ("ORS"), Melrose Property Owners Association, Inc. ("POA"), Melrose Utility Company, Inc. ("MUC") (hereinafter collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, on March 24, 2005, MUC filed an Application for Approval of an Adjustment in Rates and Charges for Water and Sewer Services ("Application") with the Public Service Commission of South Carolina ("Commission");

WHEREAS, the Parties to this Settlement Agreement are parties of record in the above-captioned docket and there are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have engaged in discussions, most recently on August 1, 2005, to determine whether a settlement of this proceeding would be in their best interests;

WHEREAS, following those discussions the Parties have each determined that their interests and the public interest would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. The Parties agree that an increase in water and sewer rates is necessary. MUC has not applied for an increase in rates in the 18 years since its initial rate filing was approved in 1987. The current rates do not enable MUC to cover its costs of providing service and earn a fair return on its investment. The Parties agree that the statement of stipulated rates attached hereto and made a part hereof as Settlement Agreement Exhibit 1 is fair and reasonable and allows MUC to continue to provide its customers with adequate water and wastewater service.
2. The resultant operating margin based on the stipulated rates is attached hereto and made a part hereof as Settlement Agreement Exhibit 2.
3. The service revenue analysis is attached hereto and made a part hereof as Settlement Agreement Exhibit 3.
4. MUC agrees to follow the recommendations of ORS witness Dawn M. Hipp outlined in her direct testimony. MUC agrees, among other things, to increase its performance bonds to the amount of \$140,000 for water and \$140,000 for sewer. MUC shall maintain accurate records of consumer service complaints and resolution of any complaints. MUC agrees to make rates, rules, regulations, maps and plans available for public inspection at its office on Daufuskie Island. MUC agrees to include language on customer bills concerning the customer's right to file complaints with the Commission, and MUC agrees to report all DHEC violations and alleged violations to the Commission. MUC agrees to format customer billing properly to include service dates, due date, after

hours telephone number, and rate schedule. MUC further agrees to correct its billing database to reconcile any water/sewer consumption variances and make appropriate customer account adjustments for any over or under charges collected as a result of MUC's calculation errors. Finally, MUC agrees to credit the accounts of customers charged for a minimum use fee of \$5.00 for irrigation water service as that rate is not approved by the Commission. This account adjustment will be credited to the customers on the September 2005 billing statement.

5. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission Order issued approving this Settlement Agreement and the terms and conditions contained herein.

6. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair in any way their arguments or positions they may choose to make in future proceedings. If the Commission should decline to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

7. The Parties agree that the Commission does not determine the rate for availability fees.

8. This agreement shall be interpreted according to South Carolina law.

9. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where

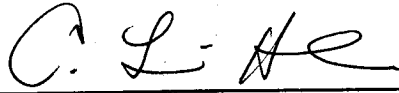
indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of this Settlement Agreement. Facsimile signatures and email signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

10. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony of ORS witness Dawn M. Hipp, without amendment, objection or cross-examination. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony of ORS witness Daniel F. Sullivan, without amendment, objection or cross-examination and without testifying at the hearing. The Parties agree that no other evidence will be offered in the proceeding by the Parties other than this Settlement Agreement with Settlement Agreement Exhibits 1-3 hereto attached.

11. The Parties agree to withdraw the pre-filed testimony and exhibits of Elizabeth J. Oliver and Christopher J. Hutton.

WE AGREE:

Representing and binding the Office of Regulatory Staff:



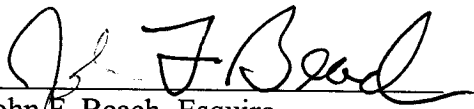
DATE: August 15, 2005

C. Lessie Hammonds, Esquire
Office of Regulatory Staff
1441 Main Street, Suite 300
Columbia, SC 29201
Phone: (803) 737-0863
Fax: (803) 737-0800
Email: lhammon@regstaff.sc.gov

The POA has not independently audited the books and records of MUC. The POA joins in this agreement as to the rates and charges agreed upon without representation as to the accuracy of the Exhibits 2 or Exhibits 3.

WE AGREE:

Representing and binding the Melrose Property Owners Association, Inc.:

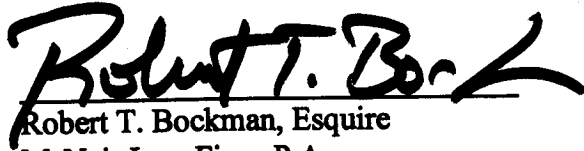


John F. Beach, Esquire
Ellis, Lawhorne & Sims, P.A.
1501 Main Street, 5th Floor
Columbia, SC 29202
Phone: (803) 343-1269
Fax: (803) 779-4749
Email: jbeach@ellislawhorne.com

DATE: August 16, 2005

WE AGREE:

Representing and binding the Melrose Utility Company, Inc.



Robert T. Bockman, Esquire
McNair Law Firm, P.A.
Post Office Box 11390
Columbia, SC 29211
Phone: (803) 799-9800
Fax: (803) 799-9804
Email: bbockman@mcnair.net

DATE: August 12, 2005

SETTLEMENT AGREEMENT EXHIBIT-1

MELROSE UTILITY COMPANY, INC.

2005-74-WS

STATEMENT OF STIPULATED RATES – SETTLEMENT

RESIDENTIAL:

WATER:

| | |
|---|----------|
| Tapping Fee & ¾" Meter box | \$500.00 |
| Base monthly charge (includes 0-7,500 gallons usage) | \$19.50 |
| Water usage charge over 7,500 gallons (per 1,000 gallons) | \$1.77 |

SEWER:

| | |
|--|----------|
| Tapping fee and service lateral | \$500.00 |
| Base Monthly Charge (includes 0-7,500 gallons usage) | \$19.50 |
| Usage charge over 7,500 gallons (per 1,000 gallons) | \$1.41 |

IRRIGATION:

| | |
|--|----------|
| Tapping Fee and ¾" Meter box | \$500.00 |
| Water usage charge (per 1,000 gallons) | \$1.20 |

COMMERCIAL:

WATER:

| | |
|---|------------|
| Tapping Fee per hotel/inn room | \$250.00 |
| Tapping Fee per cottage | \$400.00 |
| Tapping Fee up to 1.5" water meter | \$500.00 |
| Tapping Fee for 2" or 3" water meter | \$1,500.00 |
| Tapping Fee for 6" water meter | \$3,500.00 |
| Base Monthly Charge (includes 0-7,500 gallons usage) | \$33.00 |
| Water usage charge over 7,500 gallons (per 1,000 gallons) | \$1.41 |

SEWER:

| | |
|--|----------|
| Tapping Fee per hotel/inn room | \$250.00 |
| Tapping Fee per cottage | \$400.00 |
| Tapping Fee for 4"-6" service lateral | \$500.00 |
| Base Monthly Charge (includes 0-7,500 gallons usage) | \$33.00 |
| Usage charge over 7,500 gallons (per 1,000 gallons) | \$1.41 |

All special conditions (tapping fees, backflow prevention, and system development charge) remain as in original tariff.

SETTLEMENT AGREEMENT EXHIBIT 2

MELROSE UTILITY COMPANY, INC.
OPERATING EXPERIENCE AND OPERATING MARGIN
TEST YEAR ENDED NOVEMBER 30, 2004

| Description | (1) Per Books | (2) Accounting & Pro Forma Adjustments | (3) As Adjusted | (4) Effect of Proposed Increase | (5) After Proposed Increase |
|---|------------------|---|-----------------------|--|--------------------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| <u>Operating Revenues</u> | | | | | |
| Availability Fees | 95,580 | 10,500 | 106,080 | 44,616 | 150,696 |
| Water/Sewer - Residence | 22,915 | 878 | 23,793 | 7,764 | 31,557 |
| Water/Sewer - Commercial | 46,709 | 29,795 | 76,504 | 37,324 | 113,828 |
| Water-Minimum Use | 270 | (90) | 180 | (180) | 0 |
| Irrigation - Commercial | 10,170 | (1,053) | 9,117 | 0 | 9,117 |
| Irrigation - Residence | 4,398 | 74 | 4,472 | 0 | 4,472 |
| Sewer - Minimum Use | 270 | (90) | 180 | (180) | 0 |
| Tap Fees - Water | 3,750 | (3,750) | 0 | 0 | 0 |
| Tap Fees - Sewer | 3,550 | (3,550) | 0 | 0 | 0 |
| <u>Total Operating Revenues</u> | 187,612 | 32,714 | 220,326 | 89,344 | 309,670 |
| <u>Operating & Maintenance Expenses</u> | 110,310 | (7,210) | 103,100 | 0 | 103,100 |
| General & Administrative Expenses | 151,349 | 1,803 | 153,152 | 671 | 153,823 |
| Depreciation & Amortization Expense | 27,934 | (11,479) | 16,455 | 0 | 16,455 |
| Taxes Other Than Income | 3,042 | (2,043) | 999 | 375 | 1,374 |
| Income Taxes | 233 | (233) | 0 | 6,722 | 6,722 |
| <u>Total Operating Expenses</u> | 292,868 | (19,162) | 273,706 | 7,768 | 281,474 |
| <u>Net Operating Income(Loss)</u> | (105,256) | 51,876 | (53,380) | 81,576 | 28,196 |
| Customer Growth | 0 | 0 | 0 | 718 | 718 |
| <u>Total Income(Loss) For Return</u> | (105,256) | 51,876 | (53,380) | 82,294 | 28,914 |
| <u>Operating Margin</u> | -56.10% | | -24.23% | | 9.34% |
| <u>Interest Expense for Operating Margin</u> | 0 | | 0 | | 0 |

2005-74-WS

SERVICE REVENUE ANALYSIS

FOR TEST YEAR ENDING NOVEMBER 30, 2004

ORS Service Revenue Analysis at Stipulated Rates

| Customer Classification | Bill Code | Customer # as of 11/30/04 | Total Bills issued during test year (1) | Base Charge/Mo. | Base Charge/Quarter | Base Charge Revenue at Stipulated Rates | Billable Water Usage In Gallons (2) | Water Usage at Stipulated Rates | Total Revenue at Stipulated Rates |
|----------------------------------|-----------|---------------------------|---|-----------------|---------------------|---|-------------------------------------|---------------------------------|-----------------------------------|
| Water-Residential | W1 | 56 | 224 | \$19.50 | \$58.50 | \$13,104.00 | 1,684,307 | \$2,982.00 | \$16,086 |
| Water-Commercial | W2 | 40 | 160 | \$33.00 | \$99.00 | \$15,840.00 | 9,053,167 | \$12,764.97 | \$28,605 |
| Irrigation-Residential | W3 | 15 | 60 | \$0.00 | \$0.00 | \$0.00 | 3,726,435 | \$4,471.72 | \$4,472 |
| Irrigation-Commercial | W4 | 18 | 72 | \$0.00 | \$0.00 | \$0.00 | 7,597,114 | \$9,116.54 | \$9,117 |
| Water-Minimum Use | W5 | 1 | 4 | \$0.00 | \$0.00 | \$0.00 | 0 | \$0.00 | \$0 |
| Water-Commercial/2 Units | W6 | 31 | 124 | \$66.00 | \$198.00 | \$24,552.00 | 2,603,140 | \$3,964.50 | \$28,516 |
| Sewer-Residential | S1 | 56 | 224 | \$19.50 | \$58.50 | \$13,104.00 | 1,678,587 | \$2,366.81 | \$15,471 |
| Sewer-Commercial | S2 | 40 | 160 | \$33.00 | \$99.00 | \$15,840.00 | 8,967,867 | \$12,844.69 | \$28,485 |
| Sewer-Commercial/2 Units | S3 | 31 | 124 | \$66.00 | \$198.00 | \$24,552.00 | 2,603,140 | \$3,670.43 | \$28,222 |
| Sewer-Minimum Use | S5 | 1 | 4 | \$0.00 | \$0.00 | \$0.00 | 0 | \$0.00 | \$0 |
| Availability Fees - Melrose | AV-MR | 240 | 960 | \$39.00 | \$117.00 | \$112,320.00 | 0 | \$0.00 | \$112,320 |
| Availability Fees - Bloody Point | AV-BP | 82 | 328 | \$39.00 | \$117.00 | \$38,376.00 | 0 | \$0.00 | \$38,376 |
| Totals | | | | | | \$257,688.00 | 37,913,756 | \$51,981.65 | \$309,670 |

Comments:

- (1) Total number of invoices issued during the test year as computed by ORS.
 (2) Billable water usage as reported by MUC on the Master Activity Report for each billing period.
 (3) Availability Fees are billed, collected and used as operating revenue and included in this analysis.